



Nordic Countries

REFERAT WESTLICHE INDUSTRIELÄNDER

Between dream and reality

Do all children have the same possibility of being successful on the labour market irrespective of their parents' place on the social ladder? Do all children who have grown up in Sweden enjoy the same possibility of becoming who they want to be? Are they genuinely free in terms of the actual possibilities open to them?

These are questions that concern social mobility – our degree of self-determination over our own lives. In a liberal society most people consider that the principle of equality of opportunity should serve as the guideline, that no individual's chances in life should be governed by circumstances over which they have no influence. If that is not the case – if the encumbrance of birth is too severe – a society cannot be said to be equal or liberal.

At the same time as modern political philosophy, in the aftermath of the ground-breaking work of John Rawls and Robert Nozick, has asked the question of how far society should go in order to guarantee equal opportunities, the economic sciences have in the last few decades tried to establish the degree of social mobility. What is then studied is the relationship between the earnings of fathers and sons. If the sons, as adults, end up close to their fathers in terms of income distribution, social mobility is low. If their fathers' incomes do not help to predict where they will end up, social mobility is high.

Research shows that in the Western world, social mobility is lowest in the United

States – where the relationship between the earnings of fathers and sons is the strongest. After the United States come the United Kingdom, Italy and France. The Nordic countries and Canada are located at the other end of the spectrum – this is where social mobility is greatest.

These results are based on average figures for the relationship in the entire population (of men). In order to study social mobility in different income groups, research has also developed mobility matrices. One way of capturing the degree of mobility from this perspective is to study the probability that sons, once more as adults, end up in the same income group (quintile) as their fathers. In a comparison between the Nordic countries and the United States, mobility to some other quintile than their fathers is greater in the Nordic countries than in the United States, but this applies in particular to the poorest groups. In the United States, the possibility of the sons of the poorest fathers also ending up in the lowest income group is 42 percent (if it were completely random, the probability figure would be 20 percent). In Sweden, the same probability is 26 percent. Hence, there is much less mobility from poor childhood conditions in the United States than in the Nordic countries. The picture changes when it comes to the sons of the most affluent fathers. Having a rich father is as advantageous in the Nordic countries as in the United States – the probability of also reaching the highest income quintile is the same in all countries.

Another way of using these matrices is to study long-distance mobility. One dimension of this is the probability of a son whose father is in the lowest income group himself ascending to the highest income group. This constitutes the core of the American dream – that everyone, independent of background, can attain the highest incomes through determination and hard work (rags-to-riches). But research shows that mobility is lower in the United States than in the Nordic countries. The chances of a son with the poorest of fathers ascending to the highest income group is 7.9 percent in the United States and 10.9 percent in Sweden. When it comes to mobility from the top to the bottom (riches-to-rags), the same picture emerges: the risk of a son with the richest of fathers falling to the lowest income group is 9.5 percent in the United States and 15.9 percent in Sweden.

The research is unambiguous – social mobility is lower in the United States (and the United Kingdom) than in the Nordic countries and this is not the result of greater income differences or statistical subtleties: it is instead a fact to which one cannot turn a blind eye. In particular, it is in the tails of the income distribution matrix that there is a difference in mobility. The possibility for the poorest groups in the United States of creating a more tolerable life for future generations is considerably smaller than in other countries: it is easy to become poor, but difficult to escape poverty. As expressed by some British researchers: “The picture that emerges is that Northern Europe and Canada are particularly mobile and that Britain and the United States have the lowest intergenerational mobility. The idea of the United States as the ‘Land of opportunity’ persists; and clearly seems misplaced.”

The American Dream is a myth, a still living – but maybe somewhat weakened – figment of the imagination that prevents

social development and a progressive policy for the majority. If the American Dream is a nightmare on the other side of the Atlantic, it is a reality in the Nordic countries and Sweden. The principle of equal opportunities is weakest in the Promised Land.

Traditional economic theory assumes that large income differences increase the incentives to move upwards in the income scale (hungry wolves hunt best). Thus, social mobility can be expected to be highest in countries where income differences are greatest.

Research on social mobility shows the opposite – social mobility is highest in those countries where income differences are small, taxes high, the public sector well developed and the welfare systems generous. In the same way, social mobility is lowest in countries with deregulated markets with large earnings differences and strong economic incentives. The liberty to become who we want to be – the possibility of leaving a deprived background behind us – is in reality greater in more welfare-oriented countries and smaller in countries characterised by a traditional approach to incentives.

How can this be the case? What is it that makes individuals test their wings, take the plunge, look for new possibilities – in reality? It is a question of individuals’ inherent resources and their actual possibilities of having an impact on their own lives. We face a much more exciting and complicated challenge if we try to improve life in this respect than in imposing stricter conditions and harsher whips on socially marginalised individuals.

An important insight in the social sciences that has emerged in recent years is that income differences affect people’s health

and productive skills. Through reflection in other people, through the deep dimension of relativity that life entails, the quality of life is affected by placement on the social ladder. For example, in countries with large income differences, health problems are larger, children less fit, social trust is weaker, mental health is worse and obesity is more widespread.

From this perspective, it is not an unreasonable hypothesis to assume that income differences in themselves can reduce social mobility since they reinforce already established social differences that limit the actual possibilities open to an individual of having an impact on her own life. This does not mean that a reduction of income differences will automatically lead to greater social mobility, although an increasing number of people are still bold enough to think in these terms. One of the world's leading sociologists today, Professor Gösta Esping-Andersen, argues for this, while an organisation like the OECD states that: "Social mobility is generally higher in countries with lower income inequality, and vice versa. This implies that, in practice, achieving greater equality of opportunity (i.e. social mobility) goes hand-in-hand with more equitable outcomes."

The simplified view of the relationship between income differences and social mobility often finds expression in a broader perspective: in the belief that small income differences – and the Nordic model which generates them – lead not only to social stagnation, but also to deterioration in economic efficiency. It is argued that with a more market-oriented policy driven by traditional incentives, the productivity level in the economy would be higher and the labour market would function better. As globalisation has been intensified in the last ten years, it has also been claimed that

the price in terms of lost efficiency is greater than before – income differences have grown while the scope of the welfare state has shrunk.

Bo Rothstein, Professor of Political Science at the University of Gothenburg, has recently stated that this popular way of thinking "...has, however, in the last decade had to face a serious drawback. It is actually seldom that one sees an idea that has generally been considered to be the truth within a great research discipline refuted in this way, and here one can talk about 'the rise and fall' of this economic doctrine". The reason is that the map does not always correspond to reality. Swedish productivity level in the manufacturing sector is absolutely world class. The World Economic Forum – an association that can hardly be accused of having any left-wing leanings – ranks the Nordic countries as those that could improve the efficiency of their economies most rapidly in coming years, and the OECD has nuanced its picture of how countries achieve high employment and low unemployment. In the latter case, the one-size-fits-all approach no longer applies. So-called compensatory mechanisms – such as an active labour market policy and a well functioning wage-formation system – could overcome the incentive problems to which generous transfers and high taxes might contribute.

The Nordic model generates neither poor social mobility nor economic inefficiency. On the contrary, social mobility is high and the level of productivity highly competitive. Is it the case that the latter is explained by the former? In a modern knowledge economy, great social mobility becomes an important competitive factor. Each individual who does not reach her or his full potential on the labour market constitutes a greater loss for all of us. The lack of equal opportunities – the lack of equal chances in life – diminishes our chances of improving our material standard

of living. Are reduced income differences actually a way of increasing the freedom of the individual and strengthening Sweden's position in the global economy? Is the world more complicated than neo-liberal think-tanks keep telling us every day? What a terrible thought!

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